M+A Partners
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Buy-to-Let Property Tax

M+A Partners has been helping clients to grow their businesses and achieve their ambitions for almost a century - and we're immensely proud of our history. We're a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by nine partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over fifty staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

Factsheet 2016/17

There have been significant changes to the taxation of residential Buy-to-Let property which are summarised here.

Our 'Furnished Holiday Property Tax factsheet' sets out the different rules applying to those properties.

1 Income for tax purposes will usually be split between joint owners in proportion to ownership. There is an important exception to this that applies to married couples and those in civil partnership, where the income is automatically split 50:50, unless a declaration is made on form 17 to HMRC so that the actual beneficial ownership split is used instead (for example, if the property is owned 75:25). Seek professional advice.

2 Tax deductible expenses will include council tax, insurance, agent's fees and advertising. At present, full income tax relief is available for interest (but not capital repayments) on a loan used to purchase a residential let property, as a deduction, but this is changing.

By 2020/21, landlords will no longer be able to deduct finance costs from their property income; they will instead receive a basic rate reduction to their income tax liability. The change is being phased in as follows:

Tax Year	% of finance costs as a deduction	% of finance costs as a basic rate reduction
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	-	100%

As well as restricting tax relief to basic rate (20%) the measure has the effect of increasing taxable income.

3 The 10% “Wear and Tear” allowance no longer applies to furnished property. Expenditure incurred after 6 April 2016 on the replacement of furniture, furnishings and equipment used by the property’s tenants is tax deductible. This new renewals relief applies to expenditure on the like for like replacement of all moveable furniture, televisions, white goods, carpets and curtains, linen, crockery and cutlery.

Expenditure on replacing fixtures, such as bathroom suites, fitted kitchens and central heating is considered to be repairs to the building itself and is tax deductible provided there is no significant improvement or alteration to the property.

4 Losses sustained in a tax year are carried forward against future rental profits, from the same rental business. They cannot be set against other taxable income in the year.

5 HM Revenue & Customs (HMRC) should be informed when letting commences and tax returns will be necessary for each owner.

It is essential to notify HMRC of new sources of rental income by 5 October following the end of the tax year to avoid late notification penalties levied by HMRC.

6 Rental profits will be added to the owner’s other income and taxed at their marginal rate of income tax (currently 20% for basic rate tax payers or 40% / 45% for higher rate and additional rate tax payers, depending on taxable income levels).

7 Capital gains on residential property are subject to Capital Gains Tax (CGT) at 18%, where the gain falls within the basic rate band and 28% where the gain falls in to higher rates. This represents an 8% surcharge on the standard CGT rates of 10% and 20% applicable to other assets, such as shares, effective from 6 April 2016.

At present, CGT is payable by 31 January following the end of the tax year in which the disposal takes place. It is proposed (but not yet law) that from April 2019 a payment on account of any CGT due on the disposal of a residential property will be required within 30 days of completion.

8 Capital improvements to the property are subject to tax relief only when the property is sold (e.g. the cost of an extension will reduce the capital gain on sale only).

9 Stamp Duty Land Tax (SDLT) is payable on the purchase of residential property at rates of between 2% and 12%, depending on the price paid. Effective from 1 April 2016 the purchase of additional residential properties will be subject to SDLT rates 3% higher than the standard rates, subject to certain exemptions and periods of grace for personal main residence and inherited property.

10 In some circumstances, it might be beneficial to trade via a limited company but seek professional advice first.

11 Finally, we would recommend the use of a letting agent to manage your property. They will be able to ensure that you comply with the increasing responsibilities of landlords, such as checking your tenant’s right to rent, health and safety and tenancy deposit protection.

This is a brief summary, for further information please contact: **Clare Goodswen** - Partner, **Tessa Morgan** - Senior Tax Manager or **Sam Holloway** - Chartered Tax Adviser.

We offer free initial consultations.

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